

JONES, DAY, REAVIS & POGUE

MEMORANDUM

RE: Refusal by Consultant Inventor W. Scott Thielman to Sign a Patent Application Declaration

W. Scott Thielman and Avery Dennison have a long time relationship in which Thielman previously has assigned to Avery Dennison and its predecessor Stimsonite Corporation any invention emerging from projects that he was retained to devote his time to develop. Although Avery Dennison paid Thielman to help develop the inventions claimed in patent application serial number 10/015,319 ("the '319 application"), he has altered the long-standing practice that has existed between the two parties, and has refused to assign the inventions unless paid an exorbitant amount.

Summary of Facts

Scott W. Thielman was an employee of Stimsonite Corporation, Avery Dennison Corporation's predecessor in interest, from April 21, 1993 to January 29, 1999. On the day Mr. Thielman commenced his employment with Stimsonite Corporation he signed a "Noncompetition, Invention and Secrecy Agreement". See Ex. D. In July of 1999, Avery Dennison acquired Stimsonite in a stock transfer. After Thielman's formal employment ended, Avery Dennison retained Mr. Thielman's company Material Testing Technology Company as a consultant. Thielman continued to provide his services as a consultant to Avery Dennison until November of 2001.

Avery Dennison retained Thielman as a consultant to help further develop specific technologies that were the subject of various research projects. Thielman primarily worked on approved specific projects, and he billed his hours to these specific projects so that Avery

Dennison could monitor how much money was paid to Thielman for each project. In invoices that Thielman sent to Avery Dennison through his company Material Testing Technology Company, he itemized the hours he worked each month to reflect how much time he spent on each specific project.

Throughout his relationship with Avery Dennison and Stimsonite, both as an employee and later as a consultant, Thielman assigned to Stimsonite or Avery Dennison any patent in which he was named as an inventor and which related to projects he was assigned to work on. Over the past seven years he assigned over fifteen patents to Stimsonite or Avery Dennison. Several assignments were based upon projects Thielman worked on as a consultant, and several were continuations of projects he worked on while serving as an employee.

Thielman has been helping Avery Dennison develop the technology at issue here for a number of years. The '319 application that Thielman currently is refusing to sign is a continuation-in-part application based upon parent applications, serial numbered 09/596,240 and 09/781,756, relating to the same technology, and which Thielman in fact previously assigned to Avery Dennison. Thielman was acting as a consultant to help develop the technology in the parent applications. Consistent with his previous relationship with Avery Dennison, Thielman assigned the parent applications to Avery Dennison. But now, pursuing an opportunity to "cash-in" and breaking with the long time practice (and thus the implied contract) between Avery and Thielman, Thielman now refuses to assign the invention claimed in the '319 application, without significant compensation.

Avery Dennison paid Thielman for all his work developing the inventions claimed in this continuation-in-part application which he performed prior to November 2001. Thielman billed Avery Dennison over \$50,000 for the hours he spent developing this invention. See Exhibit N.

The invoices that Thielman sent to Avery Dennison contained itemized descriptions of the hours he spent on this project, and Avery Dennison paid all of Thielman's invoices.

Jurisdiction

Although federal law usually applies to patent issues, the law of the state of Illinois controls the issue of who owns this patent application. By statute, federal courts have jurisdiction over any civil action relating to patents. 35 U.S.C. § 1338. Federal law only applies, however, to "cases in which a well-pleaded complaint establishes either that federal patent law creates the cause of action or that the plaintiff's right to relief necessarily depends upon resolution of a substantial question of federal law." Christianson v. Colt Ind. Operating Corp., 486 U.S. 800, 808 (1988). Disputes over patent ownership do not contain questions of federal law, but are instead controlled by state law of property, contract and tort.

In circumstances similar to the current dispute, the Federal Circuit has refused to assert its jurisdiction over patent ownership challenges. In AT&T Co. v. Integrated Network Corp., 972 F.2d 1321 (Fed. Cir. 1992), the plaintiff sued four of its former employees because the employees refused to assign to plaintiff the patent rights for inventions that were alleged to have been invented while the employees worked for plaintiff. The counts were based upon breach of contract and the torts of inducing breach of contract and misappropriation of proprietary information. Id. at 1322. The court held that because the action was based upon traditional contract and tort claims, and plaintiff's right to relief did not depend upon the resolution of a substantial question of federal patent law, the action should be brought in state court. Id. at 1325; see also Beghin-Say Int'l, Inc. v. Ole-Bendt Rasmussen, 733 F.2d 1568 (Fed. Cir. 1984) (holding that a declaratory judgment action on the validity of patent assignments is controlled by state contract law).

Similarly, Illinois courts have held that state law applies to actions seeking determination of patent ownership rights. In Heath v. Zenkich, 437 N.E.2d 675 (Ill. App. Ct. 1982), plaintiff sought declaratory relief in an action in which he claimed to be the owner of two patents for which defendants had filed patents. The court held that §1338 does not deprive state courts from exercising jurisdiction in cases where a "question" involving federal patent law arises as opposed to a "case" involving federal patent law. Id. at 678. The plaintiff's claim of ownership arose under state contract law, and thus state law controlled. Id.

In the current ownership dispute with Thielman, no substantial questions of federal patent law are present. Neither party is attempting to invalidate the patents. Questions of patentability, infringement, claim construction, or inventorship, and any other issues controlled by federal patent laws are not present. This dispute is about how the employment relationship between Avery Dennison and Thielman should be defined, and whether Thielman has any type of contractual obligation to assign the patent to Avery Dennison. These questions of ownership are controlled by state contract and property law.

Illinois would be the appropriate state to bring an action against Thielman, because all of the relevant facts arise out of contacts and behavior that took place in Illinois. Thielman is an Illinois resident and Avery Dennison's Stimsonite facility is located in Illinois. Thielman's work done on this project took place primarily in Illinois. Thielman sent all invoices from his Illinois business to Avery Dennison's business in Illinois. All of the previous dealings leading up to this particular dispute took place in Illinois. The behavior that could show an implied agreement between the two parties occurred in Illinois. No other significant contacts exist in any other state, and because state law controls this dispute, Illinois law is the most relevant state law to apply.

Analysis

Under United States patent law, an individual owns the patent rights to subject matter that he invents. See, e.g., 37 C.F.R. 1.41(a); Banks v. Unisys Corp., 228 F.3d 1357, 1359 (Fed. Cir. 2000). In the employer-employee context, an employer's rights to an employee's invention arise under two circumstances. See, e.g., Banks, 228 F.3d at 1359; E.J. McKernan Co. v. Gregory, 623 N.E.2d 981, 1003-04 (Ill. App. Ct. 1993). First, an express agreement can exist between the parties such that the employee is obligated to assign inventions to the employer. Second, if an individual hires or engages someone for consideration to invent something or solve a particular problem, an implied contract to assign the invention to the employer exists. See Lion Mfg. Corp. v. Chicago Flexible Shaft Co., 106 F.2d 930 (7th Cir. 1939); see also E.J. McKernan, 623 N.E.2d at 1004; Heath v. Zenkich, 540 N.E.2d 776, 780 (Ill. App. Ct. 1989). No express agreement to assign exists between Thielman and Avery Dennison, so the pertinent analysis is whether an implied contract to assign exists because Thielman was hired to invent.

A. Hired to Invent

The rule that an employee who is hired to invent must assign his invention to the employer was first applied by the Supreme Court in Standard Parts Co. v. Peck, 264 U.S. 52 (1924). The Seventh Circuit followed the Standard Parts rule when it decided Lion Mfg. Corp. v. Chicago Flexible Shaft Co., 106 F.2d 930 (7th Cir. 1939). Illinois courts have applied the rules of Standard Parts and Lion Mfg. from the time these cases were decided. See e.g., Heath v. Zenkich, 540 N.E.2d 776, 780 (Ill. App. Ct. 1989).

Before they will find an implied agreement to assign, Illinois courts require that the company or individual who hires an inventor to invent must give the hired inventor specific instructions regarding the desired invention. "The employer must have more in mind than a desired result . . . [he must have] an idea of the means to accomplish the particular result [and

must] communicate that means to the employee." Heath v. Zenkich, 540 N.E.2d at 780; see also E.J. McKernan Co. v. Gregory, 623 N.E.2d at 1004. In Heath, the court held that an inventor was obligated to assign his patent to the company that had hired him to invent it. The inventor was hired to carry out "product development," and the individual that hired him had an idea of the means to accomplish the desired result of the invention and had communicated that means to the inventor. Id. at 781.

The "hired to invent" rule is based upon the general notion that if an individual or corporation has given consideration for inventive services and assumed the risk that such services might not be successful, the person that hired the inventor should receive the resulting invention. In Muenzer v. W.F. & John Barnes Co., 133 N.E.2d 312, 319 (Ill. App. Ct. 1956), the court stated that where an inventor is "hired to make a particular invention or solve a particular problem . . . [he] has, in effect, sold, in advance, the fruit of his inventive talents, skills and knowledge . . . The product is necessarily the property of the paymaster employer who engaged the services and paid for them." Id. at 319. The Illinois Supreme Court explained the "hired to invent" rule as being based on the unlikelihood that a person would "expend large sums of money for laboratory facilities and equipment so that [a hired inventor] might experiment to the end of discovering patentable objects or ideas which would be his." Velsicol Corp. v. Hyman, 90 N.E.2d 717, 724 (Ill. 1950).

The facts in this case strongly suggest Thielman was "hired to invent" the inventions claimed in the '319 patent application. Avery Dennison gave Thielman specific instructions on what they wanted from this particular project and how the equipment was to be designed and operated. Thielman reported the specific details of his work on the invention to Avery Dennison to update them on the project's progress. Thielman had no other duties on the project other than

to help design and develop the improvements to those initially disclosed in the assigned patent application. Most importantly, Avery Dennison paid Thielman based upon invoices which itemized and described particular tasks he performed in developing the improvements resulting in the claimed invention. Avery Dennison monitored the progress of the project and the amount of money it was spending on the development of the invention by examining these detailed invoices and in obtaining periodic reports on the development and testing. Thielman was hired "to devote his time to developing a 'product'" and Avery Dennison paid for these services and should receive the 'product.'

Thielman's status as an independent contractor hired to work on a specific project clearly supports the application of the "hired to invent" rule, because his duties to develop the improvements were specifically defined and focused. Thielman was not a general employee who was paid to perform a wide variety of tasks. Instead, Thielman was paid only for specific work and specific time for which he kept careful records. No possibility exists that Thielman could have been paid for tasks other than developing the invention, because Avery Dennison had agreed to pay only for work done on certain projects.

B. Implied Agreement

Because there is no express agreement to assign, a court will look to other evidence to determine if an implied agreement to assign the invention existed. An implied agreement can be shown by evidence demonstrating that the parties intended to be bound in spite of the fact that they did not reduce the agreement to writing. See River Park, Inc. v. City of Highland Park, 667 N.E.2d 499, 508 (Ill. App. Ct. 1996). Details of the Avery Dennison/Thielman relationship support the conclusion that Thielman is obligated to assign to Avery Dennison the invention claimed in the '319 application.

First, Thielman has previously assigned patents on other inventions to Avery Dennison. The Illinois Supreme Court has held that previous assignments are strong evidence that an implied agreement to assign exists. In Velsicol Corp. v. Hyman, 90 N.E.2d 717 (Ill. 1950), a research scientist was hired to develop chemicals for a research lab. No explicit written agreement existed which obligated the inventor to assign his inventions to his employer. However, over a ten year period the inventor assigned all of his inventions to the company that had hired him. "The fact that [the inventor] made voluntary and unconditional assignments to the [employer] of a large number of patent applications covering his inventions . . . is substantial proof that he considered himself bound to do so . . . and that he considered his inventions the property of [employer]." Id. at 723; see also CHISUM ON PATENTS §22.03[2] n.4 (listing previous assignment as partial proof that an implied agreement to assign exists). The Velsicol court went on to state "[t]he risk was that of the [employer] and had the [employed inventor] . . . failed to make valuable discoveries it stood to lose large sums of money while the [hired inventors] were paid for their time and service." Id. at 724.

Thielman must have considered himself bound to assign his inventions to Avery Dennison based upon the number of inventions he assigned in the absence of an explicit agreement to do so. He assigned over ten patents to Avery Dennison while acting as a consultant. Under Velsicol, these previous assignments are strong evidence that an implied agreement to assign existed between Thielman and Avery Dennison.

Furthermore, Thielman himself acknowledged that Avery Dennison had always been planning to patent the inventions arising from the improvements on the project on which he was working. In a report written by Thielman in late 2001, after experimental trials earlier in the year, he wrote "Avery Dennison has filed patent applications for the embossing corner cube

elements . . . An additional patent application was filed on processing cavities for smart cards and flat panel displays. A trial was needed to demonstrate the embossing perimeters [sic] to support the patent application." In this statement, Thielman states that the work he was doing to develop the present invention was done specifically to support the patent portfolio Avery Dennison was assembling covering this technology. As reflected by invoices sent by Thielman, Avery Dennison paid Thielman for the time he spent doing the experiments described in this report and for the time spent writing the report.

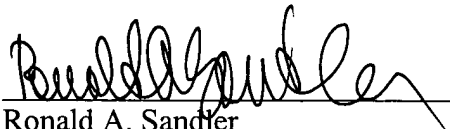
Another factor strongly suggesting that Thielman knew he was expected to assign the present invention to Avery Dennison is the fact that he assigned both of the parent applications of the '319 application. As now, no formal written agreement between Avery Dennison and Thielman existed, yet he assigned the parent applications to Avery Dennison without any objections. None of the circumstances present when he worked on and assigned the parent applications had changed by the time he worked on the invention claimed in the '319 application. The work done on the present invention was simply a continuation of the work Thielman had previously done on the inventions claimed in the parent applications. No good reason exists to explain Thielman's sudden refusal to assign the invention to Avery Dennison.

CONCLUSION

Were an Illinois court to look at the details surrounding Thielman's refusal to assign the '319 application, it likely would find that Avery Dennison was the rightful owner of the invention claimed therein. Most obvious is the fact that Avery Dennison expended a large amount of resources providing materials and equipment to the inventors and paying the inventors for the time spent developing these series of related inventions. Although no formal employment contract existed between the two parties, Thielman was hired by Avery Dennison specifically to help design and develop the subject matter of the '319 application. He was paid for his time and

expertise, and he behaved in a manner that suggested that he recognized he had an obligation to assign his inventions to Avery Dennison. Throughout the life of the project that resulted in this application and the parent applications, both parties' behavior suggested that an implied agreement to assign existed between them. No circumstances had changed. Apparently, Thielman believed it was acceptable for Avery Dennison to pay him for his time and for the material and equipment that he used to perform his work, but get nothing in return.

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